

MCCLAIN COUNTY RURAL WATER DISTRICT #8

WAYNE, OKLAHOMA

FINANCIAL STATEMENTS AND

AUDITOR'S REPORT THEREON

FOR THE YEAR ENDING JUNE 30, 2013 and 2012

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9
Supporting Schedule of Operating Expenses	10
Supporting Schedule of General and Administrative Expenses	11
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12-13
Schedule of Findings and Responses	14

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCPA

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
McClain County Rural Water District #8
Wayne, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of McClain County RWD#8, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the McClain County RWD#8, as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information


Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McClain County RWD#8's basic financial statements. The supporting schedules on pages 10 and 11 are presented for purposes of additional analysis and are not a required part of the financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2013, on our consideration of the McClain County RWD#8's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering McClain County RWD#8's internal control over financial reporting and compliance.


Oklaoma City, Oklahoma
July 19, 2013

McClain County Rural Water District #8
Statement of Net Position
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	360,050.50	229,590.17
Cash and cash equivalents - Restricted	55,404.58	54,891.55
Net Receivables	35,167.68	44,788.69
Prepaid Insurance	15,233.05	15,233.05
Materials and Supplies	<u>2,500.00</u>	<u>2,500.00</u>
Total Current Assets	468,355.81	347,003.46
NONCURRENT ASSETS:		
Net Capital Assets	<u>1,680,115.70</u>	<u>1,756,048.16</u>
Total Noncurrent Assets		
TOTAL ASSETS	<u><u>\$ 2,148,471.51</u></u>	<u><u>\$ 2,103,051.62</u></u>
CURRENT LIABILITIES:		
Accounts Payable	13,895.77	9,496.68
Accrued Expenses	1,968.88	1,866.41
Current Portion of Long Term Debt	<u>21,438.65</u>	<u>20,446.04</u>
Total Current Liabilities	<u>37,303.30</u>	<u>31,809.13</u>
NONCURRENT LIABILITIES:		
Notes Payable	<u>1,015,363.42</u>	<u>1,036,802.07</u>
Total Noncurrent Liabilities		
TOTAL LIABILITIES	<u>1,052,666.72</u>	<u>1,068,611.20</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	643,313.63	698,800.05
Unrestricted	<u>452,491.16</u>	<u>335,640.37</u>
Total Net Position	<u>1,095,804.79</u>	<u>1,034,440.42</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,148,471.51</u></u>	<u><u>\$ 2,103,051.62</u></u>

McClain County Rural Water District #8
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Water Sales	\$ 450,782.32	\$ 448,208.17
Grant Revenue	45,592.25	-
Miscellaneous	29,058.48	33,981.54
Total Revenues	<u>525,433.05</u>	<u>482,189.71</u>
Expenses		
Operating Expenses	170,818.00	170,724.96
Wages and Salaries	122,684.39	120,790.23
General and Administrative	45,184.54	41,113.17
Interest	49,777.96	50,724.60
Depreciation	106,319.46	100,596.15
Total Expenses	<u>494,784.35</u>	<u>483,949.11</u>
Excess Revenue Over Expenses		
Before Non-Operating Items	30,648.70	(1,759.40)
Interest Income	<u>715.67</u>	<u>895.83</u>
Excess Revenue Over Expenses		
After Non-Operating Items	<u>31,364.37</u>	<u>(863.57)</u>
Beginning Net Position	1,034,440.42	1,006,803.99
Contributed Capital	30,000.00	28,500.00
Ending Net Position	<u>\$ 1,095,804.79</u>	<u>\$ 1,034,440.42</u>

The accompanying notes are an integral part of these financial statements

McClain County Rural Water District #8
Statement of Cash Flows
For the Years Ending June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash Received from customers	\$ 460,403.33	\$ 450,099.73
Cash Received from other sources	75,366.40	34,877.37
Payments to suppliers	(261,381.41)	(264,674.89)
Payments to employees	(122,581.92)	(121,761.21)
Net cash provided by operating activities	<u>151,806.40</u>	<u>98,541.00</u>
Cash flows from capital and related financing activities		
Common Units Sold	30,000.00	28,500.00
Purchase of Capital Assets	(30,387.00)	(139,896.85)
Principal paid on long term debt	(20,446.04)	(19,499.40)
Net cash flows from capital and related financing activities	<u>(20,833.04)</u>	<u>(130,896.25)</u>
Net increase (decrease) in cash	130,973.36	(32,355.25)
Cash, Beginning of the Year	<u>284,481.72</u>	<u>316,836.97</u>
Cash, End of the Year	<u><u>\$ 415,455.08</u></u>	<u><u>\$ 284,481.72</u></u>
<i>Reconcilement of Operating Income (Loss) to Net Cash</i>		
<i>Provided (Used) by Operating Activities:</i>		
Excess Revenue over Expenses Before Non-Operating Items	31,364.37	(863.57)
Adjustments to Reconcile Operating Income to Net Cash		
<i>Provided (Used) by Operating Activities:</i>		
Depreciation	106,319.46	100,596.15
(Increase) Decrease in Accounts Receivable	9,621.01	1,891.56
(Increase) Decrease in Prepaid Expenses	-	315.95
Increase (Decrease) in Accounts Payable	4,399.09	(2,428.11)
Increase (Decrease) in Accrued Expenses	102.47	(970.98)
Net cash provided by operating activities	<u><u>\$ 151,806.40</u></u>	<u><u>\$ 98,541.00</u></u>
 Cash and cash equivalents - Unrestricted	 360,050.50	 229,590.17
Cash and cash equivalents - Restricted	55,404.58	54,891.55
Total Cash	<u><u>\$ 415,455.08</u></u>	<u><u>\$ 284,481.72</u></u>

MCCLAIN COUNTY RURAL WATER DISTRICT #8
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The McClain County Rural Water District #8, Oklahoma (the "District") was created on October 5, 1973, pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of McClain County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents - Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments. Restricted cash is cash reserves required by the USDA Rural Development Program.

Depreciation - Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes - The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Contributed Capital - The District has received grants from governmental agencies for the construction of the District's water system. These amounts have been recorded as Contributed Capital to reflect amounts received as equity from events not involving operations of the fund. No amounts were contributed during 2013 and 2012.

Revenue and Expense Recognition - Revenue is recognized when it is earned, which is the point of consumption by the customer and expenses are recognized at the point of sale to the District.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

GASB 34 - The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC. As of June 30, 2013 the District had \$250,000 secured as category 1 and \$165,446 secured as category 2. For the year end the District had an overall under pledged collateral amount of \$-0-.

NOTE 3 – COMMON UNITS

The District sells common units to new members. The accumulation of the sale of common units is reflected as part of the equity of the District. During the year ending June 30, 2013, the District sold \$30,000 worth of common units.

NOTE 4 – LONG TERM DEBT

During the year ending June 30, 2004, the District incurred two notes payable with Rural Development, a division of the United States Department of Agriculture. These loans were for the construction of a new water treatment plant.

The first note was for \$180,000 and carries an interest rate of 4.75%. This note calls for monthly payments of \$846. The note matures in 2023. The balance on this note as of June 30, 2013 was \$90,375. Principal and interest paid during the year ending June 30, 2013 was \$5,711 and \$4,440, respectively. Principal and interest required to amortize this note till maturity is as follows:

	Principal	Interest		
2013/2014	5,988	4,164	Balance Beginning of Year	\$ 96,087
2014/2015	6,279	3,873	Principal Paid During of Year	5,711
2015/2016	6,584	3,568	Balance End of Year	<u>\$ 90,376</u>
2016/2017	6,904	3,248		
2017/2018	7,239	2,913		
2019/2023	41,819	8,941		
2024/2025	15,562	627		
	<u>\$ 90,375</u>	<u>\$ 27,334</u>		

The second note was for \$1,065,000 and carries an interest rate of 4.75%. This note calls for monthly payments of \$5,006 to begin on September 28, 2003. The note matures in 2043. As of June 30, 2013, the balance on this note was \$946,427. Principal and interest paid during the year ending June 30, 2013 was \$14,735 and \$45,337, respectively. Principal and interest required to amortize this note till maturity is as follows:

	Principal	Interest		
2013/2014	15,450	44,622	Balance Beginning of Year	\$ 961,161
2014/2015	16,200	43,872	Principal Paid During of Year	14,734
2015/2016	16,987	43,085	Balance End of Year	<u>\$ 946,427</u>
2016/2017	17,811	42,261		
2017/2018	18,676	41,396		
2019/2023	107,894	192,466		
2024/2028	136,754	163,606		
2029/2033	173,333	127,027		
2034/2038	219,696	80,664		
2038/2043	223,626	76,734		
	<u>\$ 946,427</u>	<u>\$ 855,733</u>		

Collateral for these obligations is the water system and revenues generated by the system. The terms of these loans require that net operating revenues less depreciation and interest equal 125% of the annual debt service. As of June 30, 2013, net operating revenues less depreciation and interest equaled 266% of the annual debt service requirement. The District also had restricted cash of \$55,405 as of June 30, 2013 for debt service as required by the USDA Rural Development Loan Program.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Lines and Plant	2,890,349	-	-	2,890,349
Equipment and Fixtures	347,242	30,270	-	377,512
Total	3,237,591			3,267,861
Accumulated Depreciation	(1,481,427)	(106,319)		(1,587,746)
Net Capital Assets	<u>\$1,756,164</u>			<u>\$ 1,680,115</u>

Management decides which purchases are capitalized in a case by case basis.

NOTE 6 – INSURANCE COVERAGE

The District maintains insurance coverage through the Oklahoma Rural Water Association Assurance Group (ORWA). The policy coverage period is 6/01/2013 to 6/01/2014. The policy agreement number is 10298. The policy provides the following coverage:

Property and General Liability

\$25,000	Each Property Damage Loss per Occurrence	\$1,000,000	Aggregate Per Occurrence
\$125,000	Each Other Loss per Occurrence	\$1,000,000	Annual Aggregate

Worker's Compensation and Employment Related Practices Liability

\$500,000	Per Occurrence Including Attorney Fees	\$1,000,000	Annual Aggregate
-----------	--	-------------	------------------

Position Fidelity Bond

\$10,000	Blanket Coverage
\$71,000	Per Position on the Board
\$10,000	Money Securities

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 19, 2013 which is the date the financial statements were made available.

McClain County Rural Water District #8
Supporting Schedule of Operating Expenses
For the Years Ended June 30, 2013 and 2012

	2013	2012
Chemicals	2,109.81	11,800.19
Expense on System	36,023.14	15,693.89
Uniforms	1,712.68	1,483.78
System Repairs	75,330.89	73,563.98
Electricity	29,699.23	33,799.51
Automobile Expense	25,942.25	34,383.61
Total Operating Expenses	<u>\$ 170,818.00</u>	<u>\$ 170,724.96</u>

McClain County Rural Water District #8
Supporting Schedule of General and Administrative Expenses
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Accounting and Legal	3,712.50	3,500.00
Insurance and Bonding	3,992.53	4,520.37
Miscellaneous	18,858.29	9,727.12
Office Supplies	11,845.85	15,200.14
Postage	94.00	2,665.46
Telephone	4,154.89	4,000.13
Natural Gas	1,483.34	915.26
Water	1,043.14	584.69
Total General & Administrative Expenses	<u>\$ 45,184.54</u>	<u>\$ 41,113.17</u>

Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.
Autumn L. Williams, C.P.A., Esq.
Member AICPA & OSCP

2812 NW 57th, Ste. 102
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743
Fax: (405) 607-8744
Email: caseycpa@hotmail.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
McClain County RWD #8

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of McClain County RWD #8, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise McClain County RWD #8's basic financial statements and have issued our report thereon dated July 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McClain County RWD #8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McClain County RWD #8's internal control. Accordingly, we do not express an opinion on the effectiveness of McClain County RWD #8's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Districts's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

McClain County RWD #8's Response to Findings

McClain County RWD #8's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. McClain County RWD #8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma
July 19, 2013

Schedule of Current Findings and Responses

2013-1 Lack of Segregation of Duties (Repeat Finding)

CONDITION: During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented.

CRITERIA: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

CAUSE OF CONDITION: Limited personnel

EFFECT OF CONDITION: Unknown

MANAGEMENT RESPONSE: All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited.